**Defined Contribution Arrangements**

**Mock Examination Notes**

*(Recommended Time: 3 hours)*

# As the Pensions Manager for ABC Ltd, you have been asked to write a paper for the Board of Trustees describing the different ways that members of a DC scheme can (subject to scheme rules) access their benefits following the introduction of the pension flexibilities from April 2015, including the new transfer rules, potential tax, and Annual Allowance implications for the member and where members can obtain guidance.

**20 marks**

Format: Introductory Paragraph, detailed information of each subject area, summary, and conclusions Style: Formal and assuming some knowledge of the subject

Answer should cover:

* + Introduced via the Taxation of Pensions Act 2014.
  + They apply to ‘money purchase arrangements’ as defined under the Finance Act 2004 and therefore apply to pure DC schemes or sections of schemes including DC AVCs and cash balance schemes/sections.
  + Minimum Pension Age.
  + Designate some of or all their fund to Flexi-Access Drawdown in conjunction with paying a PCLS which can then be used to provide withdrawals, buy an annuity (including a short-term annuity payable by an insurance company for up to five years) or a scheme pension. These income options are all taxable.
  + UFPLS. A PCLS is not payable buy 25% of the amount can usually be paid tax-free with the remainder taxable as income.
  + Lifetime annuity and PCLS.
  + Flexible annuities.
  + MPAA rules. These apply where pension rights have been flexibly accessed. An individual subject to these rules has a reduced annual allowance for money purchase savings (£10,000 for 2024/25). This was introduced to ensure that there were no potential recycling issues. Recycling happens where individuals use their benefits to pay additional contributions into pension schemes to generate further tax relief.
  + Transfer rights under MP arrangements. The Pensions Schemes Act 2015 amended the statutory right to transfer so that it applies to specific categories of benefits (including money purchase as a specific category) rather than all benefits in a scheme. These changes are overriding to scheme rules.
  + Pension Wise. The impartial pension guidance service which is available from age 50 for members with money purchase pensions savings. Pension Wise is now part of the Money and Pensions Service.

(The relevant section of the Study Manual is Part 1, Chapter 1.3.8)

# Explain in what circumstances a pension savings statement must be provided to a member of a registered pension scheme and list the items that the statement must include.

**10 marks**

Answer should cover:

* + When a PSS must be issued (where PIA exceeds the standard annual allowance or where the member has triggered the MPAA and the PIA exceeds £10,000).
  + Deadline for issue is 6 October following the end of the relevant tax year. The information for the three preceding tax years will enable the member to determine whether they have any unused allowance to carry forward; where available, this amount can be offset against the PIA and therefore reduce or eliminate the Annual Allowance Charge.

List of the four items to be included in the PSS.

The aggregate PIA for the relevant PIP for each arrangement relating t the member under the registered pension scheme.

The Annual Allowance specific to the tax year relating to the end of the PIP.

The aggregate PIA in respect of each arrangement for the PIPs ending in each of the three tax years immediately preceding the relevant tax year.

The Annual Allowance for each of the three preceding tax years.

(The relevant section of the Study Manual is Part 2, Chapters 2.2.8)

# You have been asked to present a paper to the directors of a company on the advantages of setting up a new SSAS with particular focus on the flexibilities and restrictions currently in place on the investment of funds associated within this type of arrangement.

**20 marks**

Answer should cover:

* + A brief commentary on the main attractions of a SSAS including the opportunity to invest in the company. For example, directors can made commercial loans within certain limits from the SASAS to the company.
  + Purchase commercial or industrial property to be used by the company or leased to a third party.
  + Invest freely in a side range of quoted investments.
  + Buy the company’s shares. Purchase of a sponsoring employer’s shares in now limited to 5% of the SSAS fund.
  + Commentary to include:
    - Investment in taxable property such as residential property, machinery and office equipment, timeshares and beach juts and arts, antiques, fine wines, classic cars, yachts etc.,
    - Permitted investments without restrictions. Such as Government securities, traded futures and options, insurance funds and unit trusts, quoted debentures and loan stock. Care homes, hospitals, and prisons.
    - Permitted investments with restrictions. Such as Hotels, provided that this does not give a privileged rights to use part of the hotel in a way that a member of the public would not be able to do so. Commercial property, provided that if any sponsoring employer uses that property then it pays the commercial rent due, shares of a sponsoring employer (up to 100% of its shares) provided that no more than 5^% of the SSAS fund was invested in any one of the sponsoring employers at the time of purchase and subject to an overall limit of 20% of the SSAS fund invested in aggregate in shares across all sponsoring employers.
    - Possibility of loans to companies participating in the SSAS (loans do not exceed 50% of the fund and the loan is secured throughout its term by a first charge in an asset of higher value, interest is commercial and at least 1% over base rate, the term of the loan must not exceed five years and the loan must be repaid in equal instalments of capital and interest)
    - third parties provided they are not connected parties and that the loan is not used to provide table property.
    - individual members and connected persons (relatives, spouse/civil partner) will be unauthorised payments and a scheme sanction charge will also be made on the scheme administrator.

(The relevant section of the Study Manual is Part 5 Chapters 1.3.3 and 1.3.4)

# A trustee of the scheme has contacted you, as the Pensions Manager, asking about pension scams. Write them a letter describing the common features of pension scams and action being taken by public bodies to combat it, including any plans for future changes.

**25 marks**

Format: Letter – address; date; main body; appropriate signature Style: Communication appropriate for a trustee. Reasonably formal. Answer should cover:

What a pension scam is

* + Also known as 'pension loans' and 'pension liberation'.
  + The transfer of a member’s pension savings that will allow them to access funds before age 55 in good health.
  + Or to access a higher tax-free lump sum than is allowed under the legislation.
  + Companies make money by charging members a fee or by taking money direct from their pension savings.
  + Company representatives or advisers may be pushy and promise members a loan or advance or cash back. May offer to share commission.
  + Some members willing, other victims of unscrupulous companies and advisers.
  + Any early access to pension funds will result in HMRC tax charges.

Action by public bodies

* + The Pensions Regulator, HMRC and the Financial Conduct Authority.
  + Produced guidance for members, trustees/managers, and pension professionals in attempt to combat the growing trend.
  + Body called Action Fraud for reporting.
  + HMRC’s revised approach to scheme registration process and how it will confirm the registration status of a scheme following a request from a scheme administrator. This happened in October 2013. They moved away from a ‘process now; check later’ approach with scheme registration no longer confirmed on successful submission of the online form. This revised process enables HMRC to conduct detailed risk assessment activity before deciding on whether or not to register a scheme.
  + On 8 November 2021, The Pensions Regulator published guidance helping trustees understand their new powers to halt suspicious transfers. The regulations, arising from the Pension Schemes Act 2021, introduce a series of red and amber flags giving trustees the power to refuse transfers where there is a heightened risk it may be part of a scam

Future Plans

* + Three areas for direct intervention – ban on cold-calling, limiting statutory transfer right conditions and making it more difficult for fraudsters to open small pension schemes. The power to introduce a ban on pensions cold calling has been introduced within the Financial Claims and Guidance Act 2018.

(The relevant sections of the Study Manual are Part 3, Chapter 1.4.4 and Part 2, Chapter 1.1.1)

# Write brief notes setting out how master trusts are to be regulated. Your answer should cover:

* + **Legislation and regulatory responsibility**
  + **Authorisation criteria**
  + **Authorisation process**
  + **Provision of information requirements**
  + **Requirements for ‘triggering events’**

**25 marks**

Answer should cover:

* Legislation and regulatory responsibility – Pension Schemes Act 2017. The detailed rules around Master Trusts are set out in the Occupational Pension Schemes (Master Trust) Regulations 2018. They are to be supplemented by a Code of Practice. TPR has oversight for the new regime. Master trusts will be required to demonstrate to TPR that they meet certain key criteria on establishment and on an ongoing basis.
* A significant shake up of the master trust landscape is expected because of the new regime and the Regulator expects that some schemes will merge.
* Authorisation criteria – fit and proper running the scheme (including trustees and scheme funders), scheme is financially stable, scheme funder meets specified criteria, systems and processes are sufficient to ensure that it is run effectively, and the scheme has an adequate continuity strategy. A prohibition will apply if the criteria are not met.
* Authorisation process – an application will be necessary. TPR may levy a fee. A Code of Practice will be introduced setting out what TPR will consider before granting an application. TPR will have 6 months to consider an application (including existing schemes and the 6 months will run from when the law comes in). If the scheme becomes authorised it is added to a published list. If an application gets declined, then the applicant is notified with the reason why.
* Provision of information - TPR must be furnished with business plan, continuity strategy, scheme accounts and the scheme funder’s accounts. These latter two must be sent to TPR within two months of them being obtained and within nine months of the end of the financial year respectively. There will be a requirement for those involved in the master trust to notify TPR of any significant events which are set out in regulations.
* Requirements for triggering events – set out what a triggering event is (warning or determination notice to withdraw authorisation; scheme acting without authorisation; insolvency event for the scheme funder; scheme funder ending the arrangement with master trust; a decision or event which results in the scheme commencing wind up; the decision of the trustees to pursue a continuity option) and the requirements (notification to TPR and employers; need to pursue a continuity option and to prepare and submit an implementation strategy).

(The relevant section of the Study Manual is Part 4, Chapter 1.4)